Hartford Business Journal
https://www.hartfordbusiness.com/article/key-2020-federal-business-tax-changes

December 14, 2020 EXPERTS CORNER

Key 2020 federal business tax changes

By Michael D'Addio and Michael Maksymiw Jr.

Michael D'Addio

Michael Maksymiw Jr.

It has been an extremely busy year related to federal taxes, including several new laws and updates to old laws as a result of the COVID-19 pandemic.

Below are highlights of business tax changes in 2020 that employers should be aware of.

Deferral of employer share of payroll taxes

For the period beginning on the date of enactment through the end of 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act allows a deferral of the employer share of social security tax (6.2%).

Fifty percent of deferred tax is payable on Dec. 31, 2021, and the balance on Dec. 31, 2022. This provision is elective to the employer, but not required.

Net operating losses — carrybacks with no income limitation

The CARES Act changed the rules applicable to net operating losses (NOL) for 2018, 2019 or 2020, by allowing a five-year carryback for those NOLs.

In addition, the Tax Cuts & Jobs Act (TCJA) rules limiting the use of NOLs created in 2018 and later years to 80% of taxable income do not apply to 2018, 2019 and 2020. However, losses created for these years will be subject to the 80% limit when carried to years after 2020.

Bonus depreciation allowed on qualified improvement property (QIP) costs

The rushed legislative process for the TCJA in 2017 produced a drafting error that impacted qualified improvement property. The CARES Act fixes the legislative drafting error and allows QIP to be treated as 15-year property.

This makes QIP eligible for an immediate bonus depreciation deduction. This provision is retroactive to enactment of the TCJA.

Qualified improvement property is defined as improvements made by a taxpayer to the interior portion of nonresidential real property that are placed in service after the building was first placed in service.

Immediate refund of the corporate alternative minimum tax (AMT) credit

Under the TCJA, the corporate alternative minimum tax was eliminated for C corps. For entities with an AMT credit, the law provided for a four-year period (2018-2021) to offset regular tax liability and recover any additional AMT credit.

The CARES Act allows recovery of the credit over a two-year period: 2018 and 2019. Alternatively, a corporation can elect to recover the credit solely in 2018, which would require an amended return but creates an immediate opportunity for C corps to recover refunds for these credits.

Business interest expense limitation

For most businesses whose average gross receipts do not exceed $25 million ($26 million for 2019 and 2020), there is a change to the interest expense limitation rules.

For most businesses, interest expense was limited to 30% of Adjusted Taxable Income (ATI). The CARES Act increases the deductible interest to

50% of ATI for 2019 and 2020. However, the 50% ATI limit does not apply to entities taxed as partnerships for their 2019 tax year.

Secondly, Congress recognized that incomes are likely to be lower in 2020 as compared to 2019 due to the economic impact of the pandemic. The law allows a taxpayer to elect to use 2019 ATI instead of 2020 ATI in computing the section 163(j) limitation on the deduction for business interest expense.

For years beginning before Jan, 1, 2022, ATI is business taxable income without considering the deductions for depreciation, amortization or depletion.

Michael D'Addio is a principal in New Haven and Michael Maksymiw Jr. is a CPA and partner in Hartford at accounting and advisory firm Marcum LLP.